

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03

ERDE-00 IO-10 /103 W

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P R 101243Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 2744

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY OSLO

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 10564

E.O. 11652: GDS

TAGS: ENRG, UK

SUBJECT: NORTH SEA OIL: PETROLEUM AND SUBMARINE

PIPELINES BILL

REF: LONDON 10370

SUMMARY: EMBASSY E/C MINISTER CALLED JULY 9 ON JOHN

SMITH, JUNIOR MINISTER IN DEPARTMENT OF ENERGY

RESPONSIBLE FOR LEGISLATION, TO EXPRESS OUR CONCERN

ABOUT DISSATISFACTION OF AMERICAN COMPANIES OPERATING IN

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THE NORTH SEA WITH PETROLEUM AND SUBMARINE PIPELINES

BILL AND PARTICULARLY RE REVISION OF EXISTING LICENSES WHICH WILL RESULT FROM BILL AND LACK OF PROVISIONS FOR ARBITRATION OR COMPENSATION. SMITH DEFENDED LEGISLATION, CITING CHANGES TO LIMIT POWERS WHICH WILL BE MADE TO MEET OIL COMPANY CONCERNS AND STRESSING NECESSITY OF NEW POWERS ON BASIS OF NATIONAL INTEREST, WHICH COULD NOT GIVE RISE TO COMPENSATION OBLIGATION. WE ARE CONSIDERING FURTHER STEPS AS SOON AS COMMONS COMMITTEE REPORT DUE JULY 15 IS AVAILABLE. END SUMMARY.

1. MINISTER FOR ECONOMIC AND COMMERCIAL AFFAIRS CALLED YESTERDAY ON PARLIAMENTARY UNDER SECRETARY JOHN SMITH, JUNIOR MINISTER IN DEPARTMENT OF ENERGY WHO HAS BEEN HANDLING THE PETROLEUM AND SUBMARINE PIPELINES BILL. BILL IS CURRENTLY SCHEDULED FOR COMPLETION OF COMMITTEE ACTION JULY 15 AND WILL THEN BE REFERRED TO COMMONS AND SUBSEQUENTLY LORDS WITH ENACTMENT INTO LAW EXPECTED SOME TIME IN AUGUST.

2. E/C MIN SAID HE WISHED TO REPORT DISSATISFACTION OF AMERICAN OIL COMPANIES WITH CURRENT DRAFT OF PETROLEUM AND SUBMARINE PIPELINES BILL AND STATE CONCERN OF EMBASSY WITH BILL AND ITS POTENTIAL EFFECTS. ESSENCE OF OIL COMPANIES' ARGUMENT IS THAT SEVERAL PROVISIONS OF BILL WOULD CHANGE CONDITIONS OF EXISTING LICENSES. THESE PROVISIONS RELATE PARTICULARLY TO POWERS OF SECRETARY OF STATE FOR ENERGY WITH RESPECT TO EXPLORATION, DEVELOPMENT AND DEPLETION. UNDER NEW LICENSE CLAUSES SECSTATE COULD, FOR INSTANCE, REQUIRE COMPANIES TO UNDERTAKE EXPLORATORY OR DEVELOPMENT DRILLING AGAINST THEIR WISHES AND JUDGMENT OR TO SLOW DOWN DEPLETION. THESE POWERS COULD BE EXERCISED, UNDER PENALTY OF LOSS OF LICENSE, WITHOUT ADEQUATE RIGHTS OF APPEAL AND WITHOUT COMPENSATION FOR RESULTANT FINANCIAL LOSS. COMPANIES HAVE SPENT MONEY IN EXPLORATION AND DEVELOPMENT ON BASIS OF EXISTING LICENSES; TERMS ARE NOW CHANGED, AND THERE IS POTENTIAL FOR FINANCIAL LOSS, EITHER IN IMPLEMENTING SECRETARY OF STATE'S ECONOMIC DECISIONS OR THROUGH LOSS OF LICENSE AS PENALTY IF THEY FAIL TO DO SO. NET EFFECT IS REVISION OF LICENSE TO THEIR FINANCIAL DISADVANTAGE  
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WITHOUT COMPENSATION.

3. HE ALSO NOTED THAT UK LIKE US HAS BEEN ARGUING IN UN FORA FOR YEARS THAT RECOGNIZED RIGHT OF ALL STATES TO SOVEREIGNTY OVER NATURAL RESOURCES AND RIGHT TO EXPROPRIATE FOREIGN PROPERTY SUBJECT TO APPROPRIATE COMPENSATION IS SUBJECT TO NORMS OF INTERNATIONAL LAW AND HAS ARGUED IN THIS CONTEXT VALIDITY OF FREELY ENTERED

CONTRACTS. WE WONDERED IF UNILATERAL REVISION OF THESE  
CONTRACTS (LICENSES), POTENTIALLY AT LOSS TO LICENSEE,  
WITH NO APPEAL AND NO PROVISION FOR COMPENSATION, IS  
CONSISTENT WITH THIS LINE OF THOUGHT.

4. FINALLY, HE NOTED EXPECTATION OF COMPANIES THAT BILL  
IN PRESENT FORM WOULD FURTHER REDUCE PACE OF DEVELOPMENT  
IN NORTH SEA. THIS OF COURSE WOULD BE MATTER OF CONCERN  
TO USG AT A TIME WHEN INCREASE IN NEW SOURCES OF ENERGY  
SHOULD BE STRESSED.

5. WE HOPED HMG WOULD GIVE FULL CONSIDERATION TO  
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INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

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SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03

ERDE-00 IO-10 /103 W

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P R 101251Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 2745

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

AMEMBASSY PARIS

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USMISSION OECD PARIS

AMEMBASSY OSLO

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 10564

LIMITING SCOPE OF NEW RISKS WHICH BILL WOULD IMPOSE ON  
LICENSEES OR MAKING PROVISION FOR COMPENSATION FOR  
LOSSES WHICH MIGHT RESULT.

6. SMITH RESPONDED WITH DEFENSE IN ALL DETAILS OF TEXT  
OF LEGISLATION WHICH HE ANTICIPATES COMMITTEE WILL  
REPORT. HE SAID MINISTRY HAD LISTENED CAREFULLY TO OIL  
COMPANIES AND HAD MADE IMPORTANT CHANGES TO MEET THEIR  
CONCERNS. SPECIFICALLY, HE POINTED OUT THAT POWER TO  
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COMPEL EXPLORATORY DRILLING IS SUBJECT, UPON APPEAL, TO  
ARBITRATION ON BASIS OF COMMERCIAL STANDARDS; POWER TO  
COMPEL INCREASED PRODUCTION WILL BE LIMITED TO NATIONAL  
EMERGENCY AND TO COST NOT TO EXCEED COST OF DRILLING  
WELL; AND DEPLETION POWER WILL BE LIMITED (BY GOVERN-  
MENT'S REITERATED ASSURANCE, NOT BY LEGISLATION) BY  
FORMER ENERGY MINISTER'S STATEMENT OF LAST DECEMBER  
WHICH WAS GENERALLY WELL REGARDED BY OIL COMPANIES. ALL  
THESE POWERS, ESPECIALLY DEPLETION, GOVERNMENT REGARDS  
AS NECESSARY AND REASONABLE. SINCE PRODUCTION AND  
DEPLETION POWERS WOULD BE EXERCISED ONLY IN NATIONAL  
INTEREST, HE COULD SEE NO CASE FOR ARBITRATION OR  
COMPENSATION. HE ALSO REMARKED THAT HE COULD NOT UNDER-  
STAND ALL THE FUSS ABOUT NEW DEPLETION POWERS WHEN THERE  
WAS NO FUSS ABOUT THE PRINCIPLE OF ADDITIONAL TAXATION.

7. E/C MIN ANSWERED THAT OIL COMPANIES ACKNOWLEDGE IM-  
PROVEMENTS BUT DO NOT THINK THEY GO FAR ENOUGH. HE  
ACCEPTED CONCEPT OF DEPLETION POWER, BUT IT COULD BE  
EFFECTED WITHOUT REVISION OF EXISTING LICENSES, WHICH  
COMPANIES REGARD AS PARTICULARLY OBJECTIONABLE IN  
PRINCIPLE. WE DO NOT ARGUE WITH UKG PROVIDING FOR  
EXERCISE OF SOVEREIGN POWERS, BUT MORE WITH MANNER OF  
DOING SO (REVISION OF LICENSES) AND LACK OF RECOURSE OR  
PROVISION FOR COMPENSATION WHERE FINANCIAL LOSS RESULTS.  
SMITH REITERATED PREVIOUS LINE OF ARGUMENT, ADDING THAT  
THERE IS A CERTAIN AMOUNT OF CONFLICT BETWEEN NATIONAL  
INTEREST AND COMMERCIAL INTEREST OF OIL COMPANIES AND HE  
WOULD NOT EXPECT THEM TO BE FULLY SATISFIED. HE SAID  
MINISTERS CONCERNED HAVE SET THEIR MINDS FIRMLY AGAINST  
COMPENSATION.

7. SUBSEQUENT TO MEETING WITH SMITH WE LEARNED FROM  
CHAIRMAN OF OFFSHORE OPERATORS ASSOCIATION (DYK,

HAMILTON BROTHERS) THAT OPERATORS DELEGATION WILL BE SEEING ENERGY MINISTER BENN THIS AFTERNOON (JULY 10). MAIN POINT THEY INTEND TO MAKE IS OBJECTION IN PRINCIPLE TO REVISION OF EXISTING LICENSES. THEY WILL ALSO ARGUE FOR LIMITING PENALTY FOR NON-COMPLIANCE TO LOSS OF LICENSE FOR AREA CONCERNED ONLY (AS OPPOSED TO WHOLE COVERAGE OF LICENSE), TECHNICAL IMPROVEMENTS IN PIPE-CONFIDENTIAL

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LINE SECTIONS, AND APPLICATION OF PETROLEUM REVENUE TAX TO PROPOSED BRITISH NATIONAL OIL COMPANY. DYK ALSO SAID GOVERNMENT IS ACCEPTING SEVERAL REVISIONS OF PIPE-LINE SECTION OF BILL WHICH OPERATORS WANTED.

8. COMMENT: THE BILL THE COMMITTEE WILL REPORT EVIDENTLY WILL LIMIT THE NEW POWERS OF THE SECRETARY OF STATE MORE THAN WE HAD ANTICIPATED, PARTICULARLY WITH RESPECT TO PRODUCTION. HOWEVER IT STILL LEAVES SOMETHING TO BE DESIRED, PARTICULARLY WITH RESPECT TO REVISION OF LICENSES AND ABSENCE OF ANY COMPENSATION PROVISIONS. WE NOW EXPECT TO AWAIT COMMITTEE'S REPORT, EXPECTED NEXT TUESDAY, (JULY 15), AS WELL AS OPERATORS' REPORT ON MEETING WITH BENN, AND WILL THEN CONSIDER WHAT FURTHER STEPS WE MIGHT TAKE. THESE MIGHT INCLUDE CALL BY AMBASSADOR ON BENN AND NOTE TO FCO SETTING FORTH CONCERNS WITH BILL (WITH COPY TO BENN). ACTION REQUESTED: IF DEPARTMENT HAS ANY GUIDANCE, SUGGESTIONS OR COMMENT, WE WOULD APPRECIATE RECEIVING IT AS SOON AS POSSIBLE AND IN ANY CASE NOT LATER THAN WEDNESDAY MORNING.

RICHARDSON

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## Message Attributes

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**Channel Indicators:** n/a  
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